BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of PUBLIC UTILITIES COMMISSION Instituting a Proceeding to Investigate Implementing a Decoupling Mechanism for Hawaiian Electric Company, Inc., and Hawaii Electric Light Company, Inc., and Maui Electric Company, Limited.	)	Docket No. 2008-0274

HAIKU DESIGN AND ANALYSIS

COMMENTS ON THE NATIONAL REGULATORY RESEARCH INSTITUTE PAPER

AND

CERTIFICATE OF SERVICE

FILED
2009 FEB 10 P 1: 14
PUBLIC UTILITIES COMMISSION

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COMMENTS ON THE NATIONAL REGULATORY RESEARCH INSTITUTE PAPER

Carl Freedman, dba Haiku Design and Analysis (HDA) respectfully offers the following comments regarding the National Regulatory Research Institute (NRRI) scoping paper titled *"Decoupling" Utility Profits from Sales: Design Issues and Options for the Hawaii Public Utilities Commission* (Scoping Paper). HDA reviewed the Scoping Paper with great interest and marked it up with many notes and comments. HDA hopes to address most of these matters in the context of responses to the questions in Appendix 2 of the Scoping Paper. Only several brief comments are offered below.

(1) The Scoping Paper is an excellent treatment of a topic that is difficult to frame accurately and understandably. HDA commends the Commission for providing the Scoping Paper as part of the docket proceedings and commends NRRI and David Magnus

Boonin for a successful expository treatment of the subject and an insightful treatment of the issues.

(2) Decoupling Demand From Earnings - The Scoping Paper primarily addresses decoupling sales from earnings. Demand lost earnings are addressed briefly in Tables 10a and 10b in a discussion of allocation of earnings adjustments by rate component.

The energy efficiency DSM programs (that affect both sales and demand) will imminently and henceforth be implemented by a third party administrator. The utility companies affected by this docket (HECO companies) will continue to implement the load management DSM programs that primarily affect demand. To the extent that decoupling is intended to make the HECO utilities "ambivalent" to the implementation of DSM programs (with respect to earnings), it would seem reasonable to consider mechanisms that decouple demand from earnings.

(3) Customers' Incentive to Conserve - The Scoping Paper (at pages 7 – 8) explains that decoupling adjustments would reduce customers' savings associated with conservation. Payback periods are calculated with and without decoupling showing that, with a decoupling mechanism, the payback period for conservation measures would increase (become less cost effective). The results of the payback period analysis imply that implementing decoupling would substantially reduce the cost effectiveness of energy conservation measures.

HDA does not agree with the results of the payback period analysis. The Commission should not conclude that decoupling would discourage energy conservation.

Indeed, from the perspective of an individual customer considering investing in an efficiency measure, decoupling adjustments resulting from conservation (by customers as a class) would increase rates and therefore slightly increase the cost effectiveness (and decrease the payback period) of an efficiency measure.[1]

The analysis in the Scoping Paper does make a valid point about the fact that a decoupling adjustment would "take back" some of the economic savings resulting from conservation measures.[2] This effect, however, is primarily a characteristic of DSM program economics generally and is not a characteristic that is unique to the decoupling mechanisms. A rate case, for example would also "take back" the fixed cost portion of economic efficiency measure savings embedded in volumetrically billed rates. The effect of

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[1] Note that in Table 6, in the column showing "With Decoupling of Earnings", the difference in savings between a customer making a conservation investment ($3.58) and a customer not making the investment (-$1.58) equals $5.16, which is greater than the savings without decoupling ($5.00). The text above the table properly notes that the "increase in the non-conserving customer's bill [the -$1.58] is an additional incentive for customers to keep pace with the energy efficiency practices of other customers" but the payback period calculations in the decoupling cases of the table do not include this component in the full incremental savings the customer would realize as a result of making the efficiency investment.

[2] This effect is similar, both in principal and in calculation, to the "ratepayer impact measure test" (RIM test), sometimes also known as the "non-participant cost test" used as one of the "standard practice cost tests" to evaluate DSM programs. The RIM test measures the affect of a DSM program on utility rates taking into consideration the costs of a program to the utility and the reduction in the amount of sales that denominate rates.

The payback period method of analysis depicted in Table 6 is more commonly used to express the results of the "participant cost test" which measures the cost-effectiveness of a DSM measure considering the costs of the investment by the participant and the resulting reduction in the individual customer's utility bills. In the context of expressing the results of the RIM test, the payback period results are not straightforward. For example, the "Infinite" payback period indicated in the last column of Case 1 in Table 6 does not mean that a conservation measure would not be cost-effective to implement from the perspective of an individual customer (according to the participant cost test) but is rather an indication that, in this case with full revenue decoupling (rather than decoupling of earnings), all conservation savings from the class of customers as a whole would accrue to the utility until the next rate case. The measure would still be cost effective in this case from the perspective of the participant (with a payback close to but less than four years). There would still be an incentive to each customer to invest in the conservation measure.

implementing a decoupling mechanism would simply be that this adjustment would occur incrementally between rate cases.[3]

With the exception of the payback analysis in Table 6, HDA concurs with the various instances where the Scoping Paper astutely identifies impacts that decoupling and other rate design options would have on incentives for customers to conserve.

HDA hopes, time permitting, to address many of the issues raised in the Scoping Paper in its responses to the questions in Appendix 2.

[3] In this respect, the "Without Decoupling" example in Table 6 implicitly assumes that there would be no rate cases within the payback period (as well as no decoupling mechanism).

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing HAIKU DESIGN AND ANALYSIS COMMENTS ON THE NATIONAL REGULATORY RESEARCH INSTITUTE PAPER upon the following entities, by first class mail or by electronic transmission as noted:

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